



February 28, 2008

Dear Governor Phil Bredesen and the People of the State of Tennessee:

I am pleased to present to you and our fellow Tennesseans this 33rd Annual Report of the Department of Financial Institutions for fiscal year 2007.

The Department regulates banks, credit unions, trust companies, business and industrial development corporations, industrial loan and thrift companies, insurance premium finance companies, mortgage lenders, brokers, servicers and originators; title pledge lenders, check cashers, deferred presentment services companies and money transmitters.

We play a vital role in regulating and supporting the financial services industry and ensuring that Tennessee financial institutions remain fiscally strong and comply with governing authority.

The Department's mission is to ensure a safe and sound system of state-chartered institutions for Tennessee citizens. The condition of our depository institutions remains good despite challenging economic times. Depository institutions remain well-capitalized, profitable and innovative in their diverse offerings of products and services. Although we continue to see some consolidation, total net assets continue to increase and the complexity and breadth of operations continue to grow. The formation of de novo state banks has slowed.

The Department recommends legislation to strengthen the mortgage industry and our regulation through education, criminal background checks and the state's participation in a national mortgage licensing system. We would also recommend legislation to allow state chartered credit unions to convert to a state chartered mutual savings bank.

The subprime mortgage situation is a major issue facing the nation. Relatively speaking, Tennessee's share of the nationwide subprime market has been small with most subprime mortgage lending occurring in a few other states. While Tennessee depository institutions have not significantly and directly been affected by subprime lending, all Tennessee institutions are dealing with its impact on the broader economy.

The Department's response to these issues generally began about four years ago with the doubling of non-bank examiners to strengthen mortgage regulation and the creation of a Consumer Resources Division. Through traditional core functions of the Department, we have increased mortgage company examinations, established a monitoring system for dealing with troubled entities, issued guidance to the mortgage and finance company industries and have laid the foundation for greater interstate cooperation with other state and federal regulators. A priority for the Department in 2007 was the enforcement of the first year of the Tennessee Home Loan Protection Act (THLPA). Examinations indicated that the mortgage industry was not making high cost loans as defined by the THLPA. A small number of THLPA loans were identified as being made by Industrial Loan and Thrift companies. Some violations were discovered and prompt correction to the benefit of consumers was required.

All of the above mentioned measures focus on regulating financial institutions for the benefit of Tennessee consumers. However, our experience particularly in 2007 indicates to us that financial literacy is one of the keys to dealing with the economic issues facing us today. The Department initiated a number of outreach activities in 2007. Public service announcements, workshops, consumer alerts, panel discussions and a coordinated effort to reach Tennessee teachers and students was part of this effort. We are partnering with THDA to assist in the provision of counseling and a direct outreach to those borrowers holding adjustable rate mortgages. The Department is also partnering with the SmartTennessee program out of the University of Memphis to reach schools throughout Tennessee.

Throughout this report you will find additional information related to the work of this agency, as well as the condition of the entities the Department regulates. As you peruse this report, you will notice that Tennessee remains a premier state for banking and financial services companies. On behalf of the employees of the Department, this report is respectfully submitted.

Sincerely,

Greg Gonzales